



Nquthu Local Municipality
Annual Financial Statements
for the year ended June 30, 2017

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

General Information

Nature of business and principal activities	Local Municipality
Executive Committee	Cllr. SM Kunene (Mayor) Cllr. NM Zungu (Deputy Mayor) Cllr. PP Ntombela Cllr. LS Hoffman Cllr. LC Molo Cllr. MR Ngobese Cllr. ME Mnguni (Speaker)
Ordinary Councilors	Cllr. Z Sithole Cllr. RS Langa Cllr. EM Mkhwanazi Cllr. IL Shabalala Cllr. NM Buthelezi Cllr. MSK Gumbi Cllr. SM Buthelezi Cllr. SP Mathe Cllr. FA Hlatshwayo Cllr. JN Khoza Cllr. JZ Ndim Cllr. SD Masimula (MPAC Chairperson) Cllr. AS Zulu Cllr. GF Molefe Cllr.. SMC Zikode Cllr. TJ Motloun Cllr. NS Mkhize Cllr. NG Mdlalose Cllr. BI Zwane Cllr. ET Nhlebel Cllr. CT Buthelezi Cllr. XS Dlamini Cllr. TA Dlamini Cllr. MN Khanye Cllr. TZ Buthelezi Cllr. CN Xulu
Grading of local authority	B
Accounting Officer	Mr. BP Gumbi
Chief Finance Officer (CFO)	Mr. WS Mpanza
Registered office	Municipal Building 83/11 Mdlalose Street Nquthu 3135
Business address	Municipal Building 83/11 Mdlalose Street Nquthu 3135
Postal address	Private Bag X 5521

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

General Information

	Nquthu 3135
Bankers	ABSA South Africa
Auditors	Auditor General
Attorneys	Rafiq Khan Inc.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Index

The reports and statements set out below comprise the annual financial statements presented to the Nquthu Local Municipality Council.:

	Page
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 11
Accounting Policies	17 - 30
Notes to the Annual Financial Statements	31 - 56
Unaudited Appendixes:	
Unaudited Appendix A: Schedule of External loans	57
Unaudited Appendix B: Analysis of Property, Plant and Equipment	58
Unaudited Appendix C: Segmental analysis of Property, Plant and Equipment	60
Unaudited Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	61

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs for the period then ended. The external auditors are engaged to express an opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the risk committee sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the Accounting Officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's internal auditors.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 56, which have been prepared on the going concern basis, were approved by the full Council on 31 August 2017 and were signed on its behalf by:

Accounting Officer

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Financial Position as at June 30, 2017

Figures in Rand	Note(s)	2017	2016
Assets			
Current Assets			
Inventories	9	1,079,883	1,114,778
Receivables from exchange transactions	10	11,895,431	11,231,143
Receivables from non-exchange transactions	11	25,417,517	19,611,576
VAT receivable	12	1,930,774	11,945,446
Cash and cash equivalents	13	168,059,336	118,769,162
		208,382,941	162,672,105
Non-Current Assets			
Investment property	4	884,356	953,000
Property, plant and equipment	5	293,775,944	260,520,090
Intangible assets	6	229,338	306,757
Heritage assets	7	78,888	78,888
		294,968,526	261,858,735
Total Assets		503,351,467	424,530,840
Liabilities			
Current Liabilities			
Payables from exchange transactions	18	7,803,876	10,985,214
Consumer deposits	19	523,102	514,687
Unspent conditional grants and receipts	15	1,215,702	1,503,111
Provisions	16	3,781,982	4,003,239
Current portion long-term liabilities	17	-	125,643
Employee benefit obligation -current portion		49,154	251,659
Bank overdraft	13	-	17,684
		13,373,816	17,401,237
Non-Current Liabilities			
Employee benefit obligation	8	1,521,684	1,384,397
Total Liabilities		14,895,500	18,785,634
Net Assets		488,455,967	405,745,206
Reserves			
Housing Developmet Fund	14	106,440	100,206
Accumulated surplus		488,349,527	405,645,000
Total Net Assets		488,455,967	405,745,206

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016
Revenue			
Service charges	22	14,763,782	13,631,465
Rental of facilities and equipment		523,454	509,986
Licences and permits		788,998	676,412
Miscellaneous other revenue		2,069,590	1,027,642
Commissions received	24	120,352	122,019
Interest received - investment	29	12,813,407	10,368,197
Property rates	21	18,788,771	20,493,450
Interest on late payments		2,162,217	1,513,460
Government grants & subsidies	23	146,116,986	209,230,188
Fines, Penalties and Forfeits		612,316	762,644
Total revenue		198,759,873	258,335,463
Expenditure			
Employee Costs	26	(39,240,203)	(38,218,628)
Remuneration of councillors	27	(6,574,391)	(10,015,903)
Depreciation and amortisation	30	(16,066,603)	(11,136,785)
Impairment loss/ Reversal of impairments		(25,512)	(21,875)
Finance costs	31	(3,594)	(15,442)
Lease rentals on operating lease	33	(149,155)	(157,495)
Debt Impairment	28	(996,659)	(1,124,372)
Bulk purchases	35	(17,152,275)	(16,138,484)
Contracted services	34	(3,205,395)	(3,099,618)
General Expenses	25	(32,340,099)	(44,403,670)
Total expenditure		(115,753,886)	(124,332,272)
Operating surplus		83,005,987	134,003,191
Loss on disposal of assets and liabilities		(329,989)	(187,672)
Surplus for the year		82,675,998	133,815,519

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Changes in Net Assets

	Housing Development Fund	Accumulated surplus	Total net assets
Figures in Rand			
Balance at July 1, 2015	94,951	304,925,789	305,020,740
Changes in net assets			
Surplus for the year	5,255	133,815,519	133,820,774
Prior year adjustment	-	(33,096,308)	(33,096,308)
Total changes	5,255	100,719,211	100,724,466
Balance at July 1, 2016	100,206	405,645,000	405,745,206
Changes in net assets			
Surplus for the year	6,234	82,675,999	82,682,233
Prior year adjustment	-	28,528	28,528
Total changes	6,234	82,704,527	82,710,761
Balance at June 30, 2017	106,440	488,349,527	488,455,967
Note(s)	14&41		

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016
Cash flows from operating activities			
Receipts			
Sale of goods and services		14,763,782	13,631,465
Grants		146,116,986	209,295,253
Interest income		12,813,407	10,368,197
Other receipts		25,050,437	25,110,869
		<u>198,744,612</u>	<u>258,405,784</u>
Payments			
Employee costs		(45,814,594)	(47,800,428)
Suppliers		(53,961,027)	(136,329,180)
Finance costs		(3,594)	(15,442)
		<u>(99,779,215)</u>	<u>(184,145,050)</u>
Net cash flows from operating activities	36	<u>98,965,397</u>	<u>74,260,734</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(49,531,893)	(69,820,482)
Proceeds from sale of property, plant and equipment	5	(3)	-
Net cash flows from investing activities		<u>(49,531,896)</u>	<u>(69,820,482)</u>
Cash flows from financing activities			
Movement in loan - long-term loan		(125,643)	(242,142)
Net increase in cash and cash equivalents		<u>49,307,858</u>	<u>4,198,110</u>
Cash and cash equivalents at the beginning of the year		118,751,478	114,553,368
Cash and cash equivalents at the end of the year	13	<u>168,059,336</u>	<u>118,751,478</u>

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	21,455,764	-	21,455,764	14,763,782	(6,691,982)	50
Rental of facilities and equipment	540,492	-	540,492	523,454	(17,038)	50
Licences and permits	600,000	-	600,000	788,998	188,998	50
Miscellaneous other revenue	483,228	13,397	496,625	2,069,590	1,572,965	50
Commissions received	119,940	-	119,940	120,352	412	50
Interest received - investment	10,651,541	-	10,651,541	12,813,407	2,161,866	50
Total revenue from exchange transactions	33,850,965	13,397	33,864,362	31,079,583	(2,784,779)	

Revenue from non-exchange transactions

Taxation revenue

Property rates	22,718,833	-	22,718,833	18,788,771	(3,930,062)	50
Property rates - penalties imposed	1,036,903	-	1,036,903	2,162,217	1,125,314	50

Transfer revenue

Government grants & subsidies	171,328,000	-	171,328,000	146,116,986	(25,211,014)	50
Fines, Penalties and Forfeits	259,992	-	259,992	612,316	352,324	50

Total revenue from non-exchange transactions	195,343,728	-	195,343,728	167,680,290	(27,663,438)	
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Total revenue	229,194,693	13,397	229,208,090	198,759,873	(30,448,217)	
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Expenditure

Personnel	(55,358,545)	(522,998)	(55,881,543)	(39,240,203)	16,641,340	
Remuneration of councillors	(10,687,843)	-	(10,687,843)	(6,574,391)	4,113,452	
Depreciation and amortisation	(9,200,000)	-	(9,200,000)	(16,066,603)	(6,866,603)	
Impairment loss/ Reversal of impairments	-	-	-	(25,512)	(25,512)	
Finance costs	(6,221)	2,627	(3,594)	(3,594)	-	
Lease rentals on operating lease	(199,992)	40,000	(159,992)	(149,155)	10,837	
Debt Impairment	(1,000,000)	-	(1,000,000)	(996,659)	3,341	
Bulk purchases	(21,104,880)	-	(21,104,880)	(17,152,275)	3,952,605	
Contracted Services	(4,432,005)	30,000	(4,402,005)	(3,205,395)	1,196,610	
Transfers and Subsidies	(4,783,000)	-	(4,783,000)	1	4,783,001	
General Expenses	(59,248,333)	438,122	(58,810,211)	(32,340,099)	26,470,112	

Total expenditure	(166,020,819)	(12,249)	(166,033,068)	(115,753,885)	50,279,183	
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Operating surplus	63,173,874	1,148	63,175,022	83,005,988	19,830,966	
Loss on disposal of assets and liabilities	-	-	-	(329,989)	(329,989)	

Surplus	63,173,874	1,148	63,175,022	82,675,999	19,500,977	
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Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	63,173,874	1,148	63,175,022	82,675,999	19,500,977	

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	3,685,000	(3,685,000)	-	1,079,883	1,079,883	50
Receivables from exchange transactions	-	-	-	169,921	169,921	50
Receivables from non-exchange transactions	27,450,000	(27,450,000)	-	25,417,517	25,417,517	50
VAT receivable	-	-	-	1,930,774	1,930,774	50
Cash and cash equivalents	128,800,000	(128,800,000)	-	168,059,336	168,059,336	50
	159,935,000	(159,935,000)	-	196,657,431	196,657,431	
Non-Current Assets						
Investment property	1,022,000	(1,022,000)	-	884,356	884,356	
Property, plant and equipment	110,779,749	3,075,278	113,855,027	293,775,944	179,920,917	
Intangible assets	460,000	(460,000)	-	229,338	229,338	
Heritage assets	79,000	(79,000)	-	78,888	78,888	
	112,340,749	1,514,278	113,855,027	294,968,526	181,113,499	
Total Assets	272,275,749	(158,420,722)	113,855,027	491,625,957	377,770,930	
Liabilities						
Current Liabilities						
Payables from exchange transactions	-	-	-	7,803,875	7,803,875	50
Consumer deposits	-	-	-	523,102	523,102	50
Unspent conditional grants and receipts	-	-	-	1,215,702	1,215,702	50
Provisions	-	-	-	3,781,982	3,781,982	50
Current portion long-term liabilities	(122,570)	(3,072)	(125,642)	-	125,642	50
Employee benefit obligation - current portion	-	-	-	49,154	49,154	50
	(122,570)	(3,072)	(125,642)	13,373,815	13,499,457	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	1,521,684	1,521,684	50
Total Liabilities	(122,570)	(3,072)	(125,642)	14,895,499	15,021,141	
Net Assets	272,398,319	(158,417,650)	113,980,669	476,730,458	362,749,789	
Net Assets						
Reserves						
Housing Development	-	-	-	106,440	106,440	50
Accumulated surplus	58,017,706	611,148	58,628,854	488,349,523	429,720,669	50
Total Net Assets	58,017,706	611,148	58,628,854	488,455,963	429,827,109	

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2017											
Financial Performance											
Property rates	23,755,736	-	23,755,736	-		23,755,736	20,950,988		(2,804,748)	88 %	88 %
Service charges	21,455,764	-	21,455,764	-		21,455,764	14,763,782		(6,691,982)	69 %	69 %
Investment revenue	10,651,541	-	10,651,541	-		10,651,541	12,813,407		2,161,866	120 %	120 %
Transfers recognised - operational	114,939,000	-	114,939,000	-		114,939,000	116,609,833		1,670,833	101 %	101 %
Other own revenue	2,003,652	13,397	2,017,049	-		2,017,049	4,114,710		2,097,661	204 %	205 %
Total revenue (excluding capital transfers and contributions)	172,805,693	13,397	172,819,090	-		172,819,090	169,252,720		(3,566,370)	98 %	98 %
Employee costs	(55,358,545)	(522,998)	(55,881,543)	-	-	(55,881,543)	(39,240,203)	-	16,641,340	70 %	71 %
Remuneration of councillors	(10,687,843)	-	(10,687,843)	-	-	(10,687,843)	(6,574,391)	-	4,113,452	62 %	62 %
Debt impairment	(1,000,000)	-	(1,000,000)			(1,000,000)	(996,659)	-	3,341	100 %	100 %
Depreciation and asset impairment	(9,200,000)	-	(9,200,000)			(9,200,000)	(16,092,115)	-	(6,892,115)	175 %	175 %
Finance charges	(6,221)	2,627	(3,594)	-	-	(3,594)	(3,594)	-	-	100 %	58 %
Materials and bulk purchases	(21,104,880)	-	(21,104,880)	-	-	(21,104,880)	(17,152,275)	-	3,952,605	81 %	81 %
Transfers and grants	(4,783,000)	-	(4,783,000)	-	-	(4,783,000)	1	-	4,783,001	- %	- %
Other expenditure	(63,880,330)	508,122	(63,372,208)	-	-	(63,372,208)	(36,024,638)	-	27,347,570	57 %	56 %
Total expenditure	(166,020,819)	(12,249)	(166,033,068)	-	-	(166,033,068)	(116,083,874)	-	49,949,194	70 %	70 %
Surplus/(Deficit)	6,784,874	1,148	6,786,022	-		6,786,022	53,168,846		46,382,824	784 %	784 %

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	56,389,000	-	56,389,000	-		56,389,000	29,507,153		(26,881,847)	52 %	52 %
Surplus (Deficit) after capital transfers and contributions	63,173,874	1,148	63,175,022	-		63,175,022	82,675,999		19,500,977	131 %	131 %
Surplus/(Deficit) for the year	63,173,874	1,148	63,175,022	-		63,175,022	82,675,999		19,500,977	131 %	131 %

Capital expenditure and funds sources

Total capital expenditure	110,779,749	3,075,278	113,855,027	-		113,855,027	45,186,166		(68,668,861)	40 %	41 %
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Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	-	-	-	-		-	98,965,397		98,965,397	DIV/0 %	DIV/0 %
Net cash from (used) investing	-	-	-	-		-	(49,531,896)		(49,531,896)	DIV/0 %	DIV/0 %
Net cash from (used) financing	-	-	-	-		-	(125,643)		(125,643)	DIV/0 %	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	-	-	-	-		-	49,307,858		49,307,858	DIV/0 %	DIV/0 %
Cash and cash equivalents at the beginning of the year	-	-	-	-		-	118,751,478		118,751,478	DIV/0 %	DIV/0 %
Cash and cash equivalents at year end	-	-	-	-		-	168,059,336		(168,059,336)	DIV/0 %	DIV/0 %

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
2016				
Financial Performance				
Property rates				22,006,910
Service charges				13,631,465
Investment revenue				10,368,197
Transfers recognised - operational				122,294,062
Other own revenue				3,098,703
Total revenue (excluding capital transfers and contributions)				171,399,337
Employee costs	-	-	-	(38,218,628)
Remuneration of councillors	-	-	-	(10,015,903)
Debt impairment	-	-	-	(1,124,372)
Depreciation and asset impairment	-	-	-	(11,158,660)
Finance charges	-	-	-	(15,442)
Materials and bulk purchases	-	-	-	(16,138,484)
Other expenditure	-	-	-	(47,848,455)
Total expenditure	-	-	-	(124,519,944)
Surplus/(Deficit)				46,879,393
Transfers recognised - capital				86,936,126
Surplus (Deficit) after capital transfers and contributions				133,815,519
Surplus/(Deficit) for the year				133,815,519
Capital expenditure and funds sources				
Total capital expenditure				78,725,656

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
Cash flows				
Net cash from (used) operating				74,260,734
Net cash from (used) investing				(69,820,482)
Net cash from (used) financing				(242,142)
Net increase/(decrease) in cash and cash equivalents				4,198,110
Cash and cash equivalents at the beginning of the year				114,553,368
Cash and cash equivalents at year end				118,751,478

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or,
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is derecognised on disposal, or when the investment property is permanently withdrawn from use and no future economic benefits or service potential is expected from its disposal. Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.”.

Accounting Policies

1.4 Investment property (continued)

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or loss when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 4).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 4).

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Accounting Policies

1.5 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or loss.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or loss in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	30
Plant and machinery	Straight line	3-10
Furniture and fixtures	Straight line	3-10
Motor vehicles	Straight line	5-12
IT equipment	Straight line	5
Infrastructure Roads & Stormwater	Straight line	5-80
Community	Straight line	30
Infrastructure Electricity	Straight line	30
Investment property	Straight line	30

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Accounting Policies

1.5 Property, plant and equipment (continued)

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or loss unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 5).

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Accounting Policies

1.6 Intangible assets (continued)

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Intangible assets are derecognised:		
• on disposal; or • when no future economic benefits or service potential are expected from its use or disposal.		

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 7).

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or loss to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or loss.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or loss. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

1.8 Financial instruments

Classification and derecognition

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or loss, which shall not be classified out of the fair value through surplus or loss category.

Accounting Policies

1.8 Financial instruments (continued)

The municipality derecognises a financial asset when and only when; the rights to the cash flows from the financial asset expire; or it transfers the financial asset and the transfer qualifies for derecognition. The municipality first needs to evaluate the extent to which it retains the risks and rewards of ownership of the financial asset.

The municipality transfers a financial asset if and only if: the rights to receive cash flows from the asset have expired, or if the municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either the municipality has transferred substantially all the risks and rewards of the asset, or the municipality has neither transferred nor retained substantially all the risks and rewards of the asset.

The municipality removes a financial liability (or part of financial liability) from its statement of financial position when, and only when, it is extinguished i.e. when the obligation specified in the contract is discharged or called or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

Receivables from exchange transactions

Trade receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 150 days overdue) are considered indicators that the trade receivable is impaired.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in surplus or loss within. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against surplus or loss.

Payables from exchange transactions

Trade payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially recorded at amortised cost and are subsequently measured at amortised cost using the effective interest rate method.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Accounting Policies

1.9 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow: [Specify criteria]

1.13 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Defined contribution plans

The Municipality and its employees contribute to the Natal Joint Municipal Pension Fund, KwaZulu-Natal Joint Municipal Provident Fund (NJMPF) and the Government Employees Pension Fund (GEPF) which provides retirement benefits to such employees. The retirement benefit plan is subject to the rules and regulations prescribed by the Local Government Superannuation Ordinance, 1973 (Ordinance No. 24 of 1973) and in accordance with the requirements of the Pension Fund Act, 1956. Current contributions are charged against operating income on the basis of current service costs. Full actuarial valuations are performed every three years.

Whilst employees are employed by the municipality, the municipality contributes to their pension funds and medical aids. On termination, resignation or retirement of employees the municipality no longer contributes on their behalf and thus there are no post employment benefits.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or loss over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

Accounting Policies

1.13 Employee benefits (continued)

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or loss, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised.

The municipality has a landfill site, although this has been since been discontinued to function due to environmental concerns.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Accounting Policies

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

1.16 Interest and rental income

Interest is recognised using the effective interest rate method. Rentals are recognised on a time proportion basis.

1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Accounting Policies

1.19 Unauthorised expenditure (continued)

Unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure is also any expenditure incurred in contravention of the municipality's supply chain management policy.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item to be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2016 to 6/30/2017.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.24 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.25 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.26 Commitments

The municipality at the end of the reporting period will have commitments in relation to the transactions in progress that will be finished after reporting date.

These will be disclosed in the commitments indicating if they are contracted or not. The property, plant and equipment note will also detail those projects that are under construction as at reporting date.

The commitment will arise either if the transaction was concluded at year-end or not in relation to the signing of the contract. If the bidding process is still under way the commitment will also be raised.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.27 Going concern assumption

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has not adopted any standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
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3.2 Standards and interpretations issued, but not yet effective

The municipality has not applied any standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2017 or later periods:

3.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2017 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	April 1, 2019	Unlikely there will be a material impact
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	April 1, 2018	Unlikely there will be a material impact
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	April 1, 2018	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	April 1, 2018	Unlikely there will be a material impact
• GRAP 17 (as amended 2016): Property, Plant and Equipment	April 1, 2018	Unlikely there will be a material impact
• GRAP 16 (as amended 2016): Investment Property	April 1, 2018	Unlikely there will be a material impact

4. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1,999,640	(1,115,284)	884,356	1,999,640	(1,046,640)	953,000

Reconciliation of investment property - 2017

	Opening balance	Depreciation	Total
Investment property	953,000	(68,644)	884,356

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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4. Investment property (continued)

Reconciliation of investment property - 2016

	Opening balance	Depreciation	Total
Investment property	1,021,840	(68,840)	953,000

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. The municipality applies the cost model in respect of Investment Properties.

Investment Properties are depreciated on the straight-line method over the applicable useful lives as disclosed in the accounting policy note for Investment Properties.

The Investment Properties disclosed above with a carrying value of R 884 356 at 30 June 2017 (2016: R 953 000).

In respect of these Investment Properties, rental revenue to the amount of **R 254 232** (2016: R 254 232) was recognised in surplus or deficit during the current financial year.

Direct operating expenses (repairs and maintenance) recognised in surplus or deficit, arising from the Investment Properties amounts to R 0., of which R 0 is derived from Investment Properties that generated rental revenue and R 0 is derived from Investment Properties that did not generate rental revenue.

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal, as well as no contractual obligations to purchase, construct or develop Investment Property or for repairs, maintenance or enhancements.

5. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	13,270,852	-	13,270,852	13,270,852	-	13,270,852
Buildings	102,088,155	(14,378,048)	87,710,107	58,748,249	(10,982,539)	47,765,710
Plant and machinery	5,690,450	(2,575,098)	3,115,352	5,789,823	(2,238,661)	3,551,162
Furniture and fixtures	4,166,145	(2,629,801)	1,536,344	3,926,439	(2,291,919)	1,634,520
Motor vehicles	27,391,474	(9,515,032)	17,876,442	27,710,725	(6,783,722)	20,927,003
IT equipment	3,196,957	(1,946,558)	1,250,399	2,975,125	(1,660,254)	1,314,871
Infrastructure Roads & Stormwater	147,149,498	(29,227,471)	117,922,027	109,010,843	(21,548,790)	87,462,053
Community	3,092,494	(1,642,350)	1,450,144	3,092,494	(1,480,732)	1,611,762
Infrastructure Electricity	15,862,893	(6,909,987)	8,952,906	12,512,429	(6,298,988)	6,213,441
Capital work in progress - Roads	25,008,007	-	25,008,007	30,530,801	-	30,530,801
Capital works in progress - community facilities	15,683,364	-	15,683,364	42,887,452	-	42,887,452
Capital works in progress - electricity	-	-	-	3,350,463	-	3,350,463
Total	362,600,289	(68,824,345)	293,775,944	313,805,695	(53,285,605)	260,520,090

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	13,270,852	-	-	-	-	-	-	13,270,852
Buildings	47,765,710	-	-	43,539,255	(199,349)	(3,395,509)	-	87,710,107
Plant and machinery	3,551,162	30,320	(43,943)	-	2,379	(423,691)	(875)	3,115,352
Furniture and fixtures	1,634,520	106,689	(11,067)	-	195,399	(388,235)	(962)	1,536,344
Motor vehicles	20,927,003	104,995	(260,972)	-	-	(2,894,584)	-	17,876,442
IT equipment	1,314,871	340,429	(14,004)	-	-	(389,331)	(1,566)	1,250,399
Infrastructure Roads & Stormwater	87,462,053	-	-	38,137,086	1,569	(7,678,681)	-	117,922,027
Community	1,611,762	-	-	-	-	(139,507)	(22,111)	1,450,144
Infrastructure Electricity	6,213,441	-	-	3,350,464	-	(610,999)	-	8,952,906
Capital work in progress - Roads	30,530,801	32,164,293	-	(37,687,087)	-	-	-	25,008,007
Capital works in progress - community facilities	42,887,452	16,785,167	-	(43,989,255)	-	-	-	15,683,364
Capital works in progress - electricity	3,350,463	-	-	(3,350,463)	-	-	-	-
	260,520,090	49,531,893	(329,986)	-	(2)	(15,920,537)	(25,514)	293,775,944

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	13,270,852	-	-	-	-	-	13,270,852
Buildings	36,281,444	572,103	-	13,175,838	(2,263,675)	-	47,765,710
Plant and machinery	2,959,371	790,647	(6,015)	195,391	(386,950)	(1,282)	3,551,162
Furniture and fixtures	1,991,740	326,539	(28,778)	(195,388)	(455,495)	(4,098)	1,634,520
Motor vehicles	12,513,605	9,680,423	-	1,229,446	(2,496,471)	-	20,927,003
IT equipment	1,668,324	168,307	(33,532)	-	(487,333)	(895)	1,314,871
Infrastructure Roads & Stormwater	72,200,712	-	(119,347)	19,562,650	(4,181,962)	-	87,462,053
Community	1,752,648	-	-	-	(140,886)	-	1,611,762
Infrastructure Electricity	6,694,511	-	-	36,268	(501,739)	(15,599)	6,213,441
Capital work in progress - Roads	21,554,759	27,662,319	-	(18,686,277)	-	-	30,530,801
Capital works in progress - community facilities	29,169,458	27,806,477	-	(14,088,483)	-	-	42,887,452
Capital works in progress - electricity	536,796	2,813,667	-	-	-	-	3,350,463
Capital work in progress - Disaster	1,229,446	-	-	(1,229,446)	-	-	-
	201,823,666	69,820,482	(187,672)	(1)(10,914,511)	(21,874)	260,520,090	

Pledged as security

There are no assets pledged as security:

Other information

Details of properties

A comprehensive Fixes Assets Register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.
For a detailed breakdown of PPE refer to Appendix B and C. The majority of municipal roads are gravel roads mainly constructed from the MIG funding.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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5. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

The municipality through its Assets Management Policy makes a provision for maintenance of its PPE and this has been implemented where the PPE are maintained to keep them in good condition. Direct operating expenses (repairs and maintenance) recognised in surplus or deficit.

6. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	623,878	(394,540)	229,338	623,878	(317,121)	306,757

Reconciliation of intangible assets - 2017

	Opening balance	Amortisation	Total
Computer software, other	306,757	(77,419)	229,338

Reconciliation of intangible assets - 2016

	Opening balance	Amortisation	Total
Computer software, other	460,195	(153,438)	306,757

Pledged as security

There are no intangible assets pledged as security:

Other information

A comprehensive Fixed Assets Register containing information required by the MFMA section 63 is available for inspection at the registered office of the municipality.

7. Heritage assets

	2017			2016		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayoral Chain	78,888	-	78,888	78,888	-	78,888

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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8. Employee benefit obligations

Defined benefit plan

Long Service Award (LSA)

The Municipality offers employees Long Service Award (LSA) for every five years of service completed, from ten years of service to 45 years of service, inclusive.

The full actuarial report is available for inspection at municipal offices.

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(1,384,397)	(1,246,247)
Fair value of plan assets	(137,287)	(138,150)
	(1,521,684)	(1,384,397)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	2,040,121	1,753,995
Net expense recognised in the statement of financial performance	186,441	286,126
	2,226,562	2,040,121

Net expense recognised in the statement of financial performance

Current service cost	202,498	172,468
Interest cost	130,907	106,111
Actuarial (gains) losses	(146,964)	111,230
Curtailment	-	(103,683)
	186,441	286,126

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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8. Employee benefit obligations (continued)

Key assumptions used

Financial Assumptions

It is difficult to predict future investment returns and salary inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 8.64% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 8.64% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 2.54%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 30 June 2017.

The liability-weighted average term of the total liability is 8.36 years.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award.

The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 5.46% was obtained from the differential between market yields on index-linked bonds (2.54%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.64%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as $((1+8.64\%-0.50\%)/(1+2.54\%))-1$.

Thus, a general salary inflation rate of 6.46% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 2.05%.

It has been assumed that the next salary increase will take place on 1 July 2018.

9. Inventories

Consumable stores	1,079,883	1,114,778
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Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
10. Receivables from exchange transactions		
Sundry debtors	169,921	155,061
Consumer debtors - Electricity	1,822,780	1,327,648
Consumer debtors - Refuse	18,141,474	17,596,082
Consumer debtors - Market Stalls	869,809	754,468
Debt Impairment	(9,108,553)	(8,602,116)
	11,895,431	11,231,143
Electricity		
Current (0 -30 days)	901,337	906,132
31 - 60 days	165,745	96,954
61 - 90 days	126,388	17,009
91 - 120 days	91,511	13,539
121 - 150 days	47,964	13,784
151 -180 days	81,412	-
181 - 365 days	157,273	-
> 365 days	251,151	280,211
	1,822,781	1,327,629
Summary of debtors by customer classification		
Households	126,387	109,336
Commercial	758,678	864,446
National and provincial government	849,298	327,795
Other debtors	88,418	26,052
	1,822,781	1,327,629
Refuse		
Current (0 -30 days)	215,894	230,278
31 - 60 days	168,800	158,686
61 - 90 days	156,242	143,625
91 - 120 days	151,276	136,696
121 - 150 days	147,083	134,072
151 -180 days	1,648,310	-
181 - 365 days	15,653,869	16,792,725
	18,141,474	17,596,082
Summary of debtors by customer classification		
Households	2,504,654	2,295,109
Commercial	201,499	214,470
National and provincial government	15,407,908	15,056,910
Other debtors	27,413	29,593
	18,141,474	17,596,082

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
11. Receivables from non-exchange transactions		
Fines	1,780,330	1,328,490
Government grants and subsidies	7,937,130	6,784,938
Property rates	19,275,159	14,584,979
Other receivables from non-exchange revenue	1,950	-
Provision for impairment	(3,577,052)	(3,086,831)
	25,417,517	19,611,576
Property Rates		
Current (0 -30 days)	410,499	355,680
31 - 60 days	165,331	257,818
61 - 90 days	909,445	520,636
91 - 120 days	885,998	807,945
121 - 365 days	860,251	754,869
> 365 days	16,043,636	11,888,031
	19,275,160	14,584,979
Summary of debtors by customer classification		
Households	2,225,530	2,009,253
Commercial	1,570,872	1,382,680
National and provincial government	12,101,752	8,634,677
Other	3,376,996	2,558,369
	19,275,150	14,584,979
12. VAT receivable		
VAT	1,930,774	11,945,446
13. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Bank balances	2,975,701	257,091
Short-term deposits	165,083,635	118,512,071
Bank overdraft	-	(17,684)
	168,059,336	118,751,478
Current assets	168,059,336	118,769,162
Current liabilities	-	(17,684)
	168,059,336	118,751,478
Investments		
FNB Call Account	7,113,455	6,667,365
FNB Short-term Investment	22,484,721	20,911,239
Absa Short-term Investment	15,169,143	19,310,744
Nedbank Short-term Investment	48,562,804	28,312,648
Investec Short-term Investment	46,787,559	23,743,378
Absa Call A/C Incubator	405,116	381,392
Absa Call A/C Housing	106,440	100,206
Absa Call A/C Electrification	2,526,039	3,709,796
Standard Bank Short-term Investment	21,928,358	15,375,304
	165,083,635	118,512,072

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

13. Cash and cash equivalents (continued)

Funds not immediately available are invested with commercial banks in terms of the Cash and Investment policy and Municipal Investment Regulations.

Some other conditional grants agreements require that a separate investment (call account) be opened for them so that interest can be easily identified and accrued to the grant. These being the individual investments mentioned above and the remainder of investments is made up of own cash reserves and those grants not requiring separate investments account.

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2017	June 30, 2016	June 30, 2015
ABSA BANK - Cheque Account - 405-3562-762	2,765,933	34,982	14,040,054	2,702,602	(17,684)	14,040,054
ABSA BANK - Savings Account - 914-2845-014	273,083	256,091	243,608	273,083	257,091	243,608
Total	3,039,016	291,073	14,283,662	2,975,685	239,407	14,283,662

14. Statutory reserve

Housing Development Fund	106,440	100,206
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15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Government Grant	23,974	23,974
Capacity Building	40,882	40,882
MFMA	2,602	2,602
Cybercadet	-	33,254
Integrated Development Plan Grant	172,531	172,531
Municipal Systems Improvement Grant	81,129	127,338
FMG	28,506	-
COGTA Electrification grant	31,879	803,296
Bornem grant	523,702	173,275
Library Volunteer	36,773	49,630
Small business incubator grant	17,986	17,986
Sportsfield grant (Isilonjane)	20,331	20,331
DOE Electrification Grant	39,295	-
Extended Public Works Grant	39,181	-
Sportsfield Maintenance Grant	156,930	38,012
Library Support	1	-
	1,215,702	1,503,111

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

15. Unspent conditional grants and receipts (continued)

See Appendix F for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised. Other grants require that a separate investment account be opened and this has been complied with.

16. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	193,766	-	-	193,766
Accrued Leave	3,809,473	91,805	(313,062)	3,588,216
	4,003,239	91,805	(313,062)	3,781,982

Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	193,766	-	-	193,766
Leave pay provision	2,781,366	1,227,144	(199,037)	3,809,473
	2,975,132	1,227,144	(199,037)	4,003,239

Environmental rehabilitation provision

The municipality is required to provide for the rehabilitation of the landfill site after the end of its useful life. The cost to rehabilitate the landfill site has been estimated by the engineers to be R 500 000 and the remaining life is 10-12 years.

However in November 2012 the landfill site was permanently closed and no future use was permitted due to environmental regulations. The process to rehabilitate the land is underway. No new provisions are raised since this site is not utilised anymore.

Leave provision

The leave pay provision is based on the number of days each employee has accrued at year-end in terms of the South African Local Government Bargaining Agreement.

17. Long-term loan

Refer to Appendix A for the reconciliation of external loans and further details.

Installments are paid half-yearly on equal installments on each loan, the loans are unsecured.

This loan was for the construction on municipal administration buildings and contracts are available for inspection. The loan was fully settled in this reporting period.

DBSA Loan - account number 100524/3	-	125,643
Less - Current Portion of DBSA Loans	-	(125,643)
	-	-

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
18. Payables from exchange transactions		
Trade payables	6,154,027	9,297,349
Accrued bonus	1,532,081	1,593,478
Other payables	117,768	94,387
	7,803,876	10,985,214
19. Consumer deposits		
Electricity	467,102	466,687
Refuse	56,000	48,000
	523,102	514,687
20. Revenue		
Service charges	14,763,782	13,631,465
Rental of facilities and equipment	523,454	509,986
Licences and permits	788,998	676,412
Miscellaneous other revenue	2,069,590	1,027,642
Commissions received	120,352	122,019
Interest received - investment	12,813,407	10,368,197
Property rates	18,788,771	20,493,450
Property rates - penalties imposed	2,162,217	1,513,460
Government grants & subsidies	146,116,986	209,230,188
Fines, Penalties and Forfeits	612,316	762,644
	198,759,873	258,335,463
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	14,763,782	13,631,465
Rental of facilities and equipment	523,454	509,986
Licences and permits	788,998	676,412
Miscellaneous other revenue	2,069,590	1,027,642
Commissions received	120,352	122,019
Interest received - investment	12,813,407	10,368,197
	31,079,583	26,335,721
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	18,788,771	20,493,450
Property rates - penalties imposed	2,162,217	1,513,460
Transfer revenue		
Government grants & subsidies	146,116,986	209,230,188
Fines, Penalties and Forfeits	612,316	762,644
	167,680,290	231,999,742

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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21. Property rates

Rates received

Residential	21,012,121	22,630,699
Less: Income forgone	(2,223,350)	(2,137,249)
	18,788,771	20,493,450
Property rates - penalties imposed	2,162,217	1,513,460
	20,950,988	22,006,910

Valuations

Residential	406,111,000	406,111,000
Commercial	597,588,500	597,588,500
State	401,398,000	401,398,000
Municipal	29,838,000	29,838,000
	1,434,935,500	1,434,935,500

Valuations on land and buildings are performed every 3 years but the valuation roll is valid for four years. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Due to political climate in the municipality an application was made to the MEC for Local Government to have the validity of the valuation roll extended by a year which was subsequently approved. But this will be for the next reporting period.

A general rate of R 0.015 (2016: R 0.015) is applied to property valuations to determine assessment rates.

Rates are levied on an annual basis with the final date for payment being Wednesday, May 31, 2017 (Tuesday, May 31, 2016). Interest at prime plus 2% per annum (2016: 2%), is levied on rates outstanding two months after due date.

Different rate randage are charged for different categories of rate payers. Primary statutory rebates is on first R 15 000 of property value, additional rebates were granted to all residential category of ratepayers as contained in the Council's approved Property Rates Policy for R 85 000 through reduction in value.

22. Service charges

Sale of electricity	13,083,445	11,728,412
Refuse removal	1,680,337	1,903,053
	14,763,782	13,631,465

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
23. Government grants and subsidies		
Operating grants		
Equitable share	110,256,000	115,965,000
Cybercadet Grant	349,388	333,743
Municipal Finance Management Grant	1,796,494	1,799,512
Municipal Systems Improvement Grant	46,209	657,036
Library Support	1,119,000	1,145,198
Grant - Library Volunteer	12,857	40,375
Bornem Grant	1,695,639	812,878
Expanded Public Works Programme	1,286,163	1,540,320
Sportfield maintenance grant	48,083	-
	116,609,833	122,294,062
Capital grants		
Municipal Infrastructure Grant	29,507,153	39,769,422
Massification (Ward 3, 10 & 13)	-	27,166,704
INEP grant	-	20,000,000
	29,507,153	86,936,126
	146,116,986	209,230,188

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	35,860,986	46,098,484
Unconditional grants received	110,256,000	115,965,000
	146,116,986	162,063,484

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All the residents with electricity get a Free Basic Electricity monthly allowance of 50kWh (2016: 50kWh), which is funded from the Equitable Share.

Municipal Government Grant

Balance unspent at beginning of year	23,974	23,974
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Conditions still to be met - remain liabilities (see note 15). Provincial Local Government grants are used to implement administrative and financial framework and to improve governance. The grants are spent in accordance with a business plan approved by the Provincial Government.

Capacity Building

Balance unspent at beginning of year	40,882	40,882
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Conditions still to be met - remain liabilities (see note 15). Provincial Local Government grants are used to implement administrative and financial framework and to provide a municipal infrastructure framework. The grants are spent in accordance with a business plan approved by the Provincial Government

MFMA

Balance unspent at beginning of year	2,602	2,602
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Conditions still to be met - remain liabilities (see note 15).

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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23. Government grants and subsidies (continued)

Cybercadet

Balance unspent at beginning of year	33,254	26,997
Current-year receipts	-	340,000
Conditions met - transferred to revenue	(349,388)	(333,743)
Transferred to receivables	316,134	-
	<u>-</u>	<u>33,254</u>

Conditions still to be met - remain liabilities (see note 15).

Library assistants are appointed and their salaries paid monthly. The department did not pay the allocations due to the municipality as gazetted, therefore all the expenditure incurred has been disclosed as debt due to the municipality.

Provincial Library Grants were allocated to subsidise the purchase of equipment for municipal libraries as well as contribution towards library staff salaries. Further funding was received for the installation of computer hardware and software for public internet access, the cost of the internet connectivity, furniture to house these computers and salaries for the employment of "cybercadets". The subsidies are spent in accordance with a business plan approved by the Provincial Government. No funds have been withheld.

Integrated Development Plan Grant

Balance unspent at beginning of year	172,531	172,531
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Conditions still to be met - remain liabilities (see note 15).

Improvement in the IDP processes will be undertaken in the ensuing financial year..

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	(2,210,221)
Current-year receipts	29,778,000	35,246,000
Conditions met - transferred to revenue	(29,778,000)	(33,035,779)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 15). National Conditional Grant are allocated in terms of the Division of Revenue Act. This grant is used to construct roads infrastructure as part of the uplifting the community, 15% of the funds should be spent on the sports facilities. No funds have been withheld.

There was over-expenditure on this grant which was approved by the council to be funded from own funding and will be recovered in the next financial year R 6,733,643.

Municipal Systems Improvement Grant

Balance unspent at beginning of year	127,338	248,375
Current-year receipts	-	930,000
Conditions met - transferred to revenue	(46,209)	(657,037)
Other	-	(394,000)
	<u>81,129</u>	<u>127,338</u>

Conditions still to be met - remain liabilities (see note 15). National Conditional Grant are allocated in terms of the Division of Revenue Act. The Municipal Systems Improvement Grant is used to assist municipalities to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
23. Government grants and subsidies (continued)		
Finance Management Grant		
Balance unspent at beginning of year	-	75,512
Current-year receipts	1,800,000	1,616,844
Conditions met - transferred to revenue	(1,771,494)	(1,616,356)
Other	-	(76,000)
	28,506	-

Conditions still to be met - remain liabilities (see note 15).

.National Conditional Grants are allocated in terms of the Division of Revenue Act. The Financial Management Grant is used to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

COGTA Massification (Electrification) grant

Balance unspent at beginning of year	803,296	13,970,000
Current-year receipts	8,611,000	14,000,000
Conditions met	(9,382,417)	(27,166,704)
	31,879	803,296

Conditions still to be met - remain liabilities (see note 15).

This is the the Provincial Government grants from the Co-operative Government and Traditional Affairs department to fund the electrification of households in wards 3, 10 and 13. The contractor is on site. This project is under the distribution licence area of Eskom and on commissioning it will be handed over to Eskom for operating.

Bornem grant

Balance unspent at beginning of year	173,275	660,690
Current-year receipts	2,046,066	325,463
Conditions met - transferred to revenue	(1,695,639)	(812,878)
	523,702	173,275

Conditions still to be met - remain liabilities (see note 15).

This grants is from the Bornem municipality in Belgium which the municipality has the city to city co-operation and they give us funding to implement projects of mutual interest like youth, children, education. Projects under the MOA are still outstanding and under SCM processes

Library Volunteer

Balance unspent at beginning of year	49,630	48,005
Current-year receipts	-	42,000
Conditions met - transferred to revenue	(12,857)	(40,375)
	36,773	49,630

Conditions still to be met - remain liabilities (see note 15).

The volunteers are appointed but they are getting their stipends monthly.

Small business incubator grant

Balance unspent at beginning of year	17,986	17,986
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Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
23. Government grants and subsidies (continued)		
Conditions still to be met - remain liabilities (see note 15).		
This is the the Provincial Government grants from the Co-operative Government and Traditional Affairs department to fund the construction of the business incubator. The contractor is on site and finishing off the building for phase II.		
Sportsfield grant (Isilonjane)		
Balance unspent at beginning of year	20,331	20,331
Conditions still to be met - remain liabilities (see note 15).		
This is the the Provincial Government grants from the Sports and Recreation department to fund the refurbishment of Isilonjane Stadium. The stadium has been completed and these funds will be returned to the department should there be no further usage approved.		
DOE Electrification Grant		
Balance unspent at beginning of year	-	698,559
Current-year receipts	18,000,000	20,000,000
Conditions met	(17,960,705)	(20,000,000)
Other	-	(698,559)
	39,295	-
Conditions still to be met - remain liabilities (see note 15).g		
The contractor is on-site and the electrification is underway. Department of Minerals and Energy provided a grant in support of Electrification Projects. The grants are spent in accordance with an approved business plan. This project is under the distribution licence area of Eskom and on commissioning it will be handed over to Eskom for operating.		
Extended Public Works Grant		
Balance unspent at beginning of year	-	191,664
Current-year receipts	1,337,000	1,529,000
Conditions met - transferred to revenue	(1,297,819)	(1,720,664)
	39,181	-
Conditions still to be met - remain liabilities (see note 15). National Conditional Grants are allocated in terms of the Division of Revenue Act. The grant is to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in compliance with EPWP Guidelines.		
Sportsfield Maintenance Grant		
Balance unspent at beginning of year	38,012	38,012
Current-year receipts	167,000	-
Conditions met - transferred to revenue	(48,082)	-
	156,930	38,012
Conditions still to be met - remain liabilities (see note 15).		
This is the the Provincial Government grants from the Sports and Recreation department to fund the operation and maintainance of the sportsfield. The caretaker is appointed and salary paid monthly.		
Library Support		
Current-year receipts	-	1,106,000
Conditions met - transferred to revenue	-	(1,106,000)

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
23. Government grants and subsidies (continued)		
Spent	(1,515,429)	-
Transferred to debtors	1,515,430	-
	1	-

Conditions still to be met - remain liabilities (see note 15).

Library support staff is appointed and their salaries paid monthly. The department did not pay the allocations due to the municipality as gazetted, therefore all the expenditure incurred has been disclosed as debt due to the municipality.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 1 of 2015), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

24. Commissions received

Commissions received	120,352	122,019
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25. General expenses

Advertising	151,698	287,132
Audit Committee	39,061	69,796
Auditors remuneration	1,937,633	1,936,742
Bank charges	119,518	159,477
Cleaning	588,475	521,062
Commission paid	121,140	82,195
Community Development Projects	2,455,746	2,540,420
Computer expenses	-	352,050
Consulting and professional fees	4,215,459	2,019,141
Consumables	748,441	1,373,476
Delivery expenses	-	3,368,383
Disaster Management	1,223,180	1,012,780
Electricity	495,686	422,852
Entertainment	56,767	108,978
Food for waste program	-	849,235
Fuel and oil	1,195,972	1,565,364
Hire	73,768	248,000
IT expenses	584,589	280,888
Indigent Support(FBE)	2,371,339	3,139,342
Insurance	527,497	710,071
Medical expenses	1,000	15,500
Motor vehicle expenses	208,863	216,365
Printing and stationery	374,357	370,403
Promotions and sponsorships	119,786	458,131
Publicity	706,570	1,478,426
Repairs and Maintenance	2,134,868	1,788,473
Software expenses	955,181	1,808,167
Subscriptions and membership fees	579,662	506,525
Telephone and fax	233,773	315,220
Tourism development	455,841	170,429
Training	859,607	917,297
Travel - local	2,805,333	4,248,462
Uniforms	620,614	598,271
Ward Committees Stipends	119,200	2,305,136
Water	369,402	-
Youth development and training	4,890,073	8,159,481
	32,340,099	44,403,670

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
26. Employee related costs		
Basic	30,976,754	27,857,497
Bonus	1,847,657	1,990,578
Medical aid - company contributions	1,354,395	1,032,083
UIF	243,681	236,615
WCA	4,290	1,152,590
SDL	306,282	310,413
Leave pay provision charge	91,806	1,227,143
Group Life Insurance	5,474	5,474
Defined contribution plans	3,230,314	2,977,975
Overtime payments	960,251	1,020,290
Long-service awards	140,469	362,776
Housing benefits and allowances	27,454	25,200
Telephone and Cellphone Allowance	37,539	6,600
SALGBC Levies	13,837	13,394
	39,240,203	38,218,628

The salaries of the Senior Management detailed below are included in the overall salary cost above.

Remuneration of municipal manager

Annual Remuneration	1,117,559	1,054,301
Contributions to UIF, SDL, SALGBC	12,755	12,030
Other	12,000	12,000
	1,142,314	1,078,331

Remuneration of chief finance officer

Annual Remuneration	984,252	928,539
Contributions to UIF, SDL, SALGBC	11,347	10,698
Other	6,000	6,000
	1,001,599	945,237

Corporate and human resources (corporate services)

Annual Remuneration	201,856	905,097
Contributions to UIF, SDL, SALGBC	2,301	9,959
Other	939	6,000
	205,096	921,056

Development planning and Housing

Annual Remuneration	886,618	905,097
Contributions to UIF, SDL, SALGBC	10,354	10,070
Other	6,000	6,000
	902,972	921,167

Technical Services

Annual Remuneration	886,618	905,097
Contributions to UIF, SDL, SALGBC	10,354	9,969
Other	6,000	6,000
	902,972	921,066

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
27. Remuneration of councillors		
Mayor	120,476	782,480
Deputy Mayor	88,761	630,878
Executive Committee Members	277,369	1,354,544
Speaker	68,843	369,597
Councillors	5,978,927	6,818,323
Contributions to UIF and SDL	40,015	60,081
	6,574,391	10,015,903

In-kind benefits

The MEC for Local Government did not designate any political office to be full-time on the establishment notice for this new term of Council. The Mayor, Deputy Mayor and Speaker are provided with an office and individual secretarial support at the cost of the Council while all other councillors share the secretariat. The political office-bearers were only elected in June 2017 as this was not done successfully after the August 2016 elections until the Council was dissolved in February 2017.

The Mayor and the Deputy Mayor have the use of Council owned vehicle for official duties, they both have full-time drivers.

The Councillor allowances are as per the Government Notice No. R 1271 dated 21 December 2015 and approved by the MEC for CoGTA at 100% of upper-limits as applicable to grade 3 for part-time councillors. Since the council was disbanded in February 2017 after the August 2016 elections the increment applicable for 2016-2017 financial year was not applied as the application was never made to the MEC. Councillor allowances were not paid for March, April and May as there was no Council in place after dissolution.

28. Debt impairment

Contributions to debt impairment provision	996,659	1,124,372
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29. Investment revenue

Interest revenue		
Bank	12,813,407	10,368,197

30. Depreciation and amortisation

Property, plant and equipment	16,066,603	11,136,785
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31. Finance costs

Non-current borrowings	3,594	15,442
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32. Auditors' remuneration

External Audit Fees	1,086,328	867,010
Internal Audit Fees	851,305	1,069,732
	1,937,633	1,936,742

33. Operating lease

The municipality is leasing photocopying machines on a 36 months operating starting on 01 March 2014 and ending on 28 February 2017, with an annual escalation on rentals of 10%, the other contract will end 30 September 2017. There is no contingent rent payable. The contracts for the next year are still being finalised.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
33. Operating lease (continued)		
Minimum lease payment		
- within one year	7,749	128,395
- later than one year and not later than five years	-	7,749
- later than later five years	-	1
	7,749	136,145
34. Contracted services		
Security	3,205,395	3,099,618
35. Bulk purchases		
Electricity	17,152,275	16,138,484
36. Cash generated from operations		
Surplus	82,675,999	133,815,519
Adjustments for:		
Depreciation and amortisation	16,066,603	11,136,785
Profit/Loss on sale of assets and liabilities	329,989	187,672
Impairment loss	25,512	21,875
Movements in retirement benefit assets and liabilities	137,287	138,150
Movements in provisions	(221,257)	1,028,107
Prior-year adjustments	28,533	(33,096,316)
Changes in working capital:		
Inventories	34,893	(245,981)
Receivables from exchange transactions	(664,288)	(2,008,534)
Other receivables from non-exchange transactions	(5,805,941)	(10,476,690)
Prepayments	-	1,390,095
Payables from exchange transactions	(3,181,338)	(8,421,693)
VAT	10,014,672	(6,364,896)
Unspent conditional grants and receipts	(287,409)	(13,022,788)
Consumer deposits	8,415	26,193
Employee benefit obligation -current portion	(202,506)	147,976
Housing Development fund	6,233	5,260
	98,965,397	74,260,734
37. Commitments		
Authorised capital expenditure		
Already contracted		
• Property, plant and equipment (Work in progress)	34,559,061	17,808,709
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	41,510,536	22,355,282
Total capital commitments		
Already contracted	34,559,061	17,808,709
Not yet contracted for and authorised by accounting officer	41,510,536	22,355,282
	76,069,597	40,163,991

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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38. Contingencies

The Municipality has the following contingent liabilities:

A middle-income housing developer contracted by the municipality is suing the municipality for an alleged breach of the contract and the municipality is defending the matter and is awaiting legal advice of the Senior Counsel (there are also various cases linked to this case, which may be treated as one which were lodged by prospective buyers), exact amounts cannot be determined because the developer has been refusing to handover all the information to the municipality. As at the reporting date 30 June 2017 this was still pending.

There is a pending matter relating to INEP/Massification grants treatment of VAT that the municipality claimed as Input VAT based on previous guidance issued by Treasury, subsequent to that there is a guidance that affected the treatment of spending on these grants which have impact on the VAT Input already claimed and for future. The current amount is estimated at R 4 million, once we sought additional guidance this will be treated accordingly.

39. Related parties

The salaries of members of key management and councilors are disclosed under the employee costs note 26. The municipality does not have any other related parties except for the management and councillors we also do not have a municipal entity.

Related party transactions

The municipality did not have any related party transactions.

40. Change in estimate

There were no changes in estimates this year.

41. Prior period errors

The municipality has been previously constructing electricity on behalf of Eskom in its distribution licence area through INEP/Massification grants received from National Treasury and Provincial COGTA, and has accounting for this through the WIP until transferred out to Eskom on completion. We have received guidance that the municipality must not capitalise this on WIP but be treated as liability, this has been corrected in this reporting period.

Statement of financial position

Property, plant and equipment	(25,953,389)	(33,367,647)
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Statement of Financial Performance

Grant revenue	(25,953,389)	(33,367,647)
Grants Expenditure	25,953,389	33,367,647

42. Comparative figures

No comparative figures have been reclassified.

43. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: the current global economic crisis may have effect whereby businesses closes and fail to pay their debts due, also the unemployment levels will increase and more debts maybe written-off.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand

43. Risk management (continued)

Interest rate risk

As the municipality does have significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates. But the municipality is only investing on banks as per Cash and Investment regulations which limits the exposure.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. .

44. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

45. Events after the reporting date

No material facts and circumstances have occurred between the accounting date and the date of this report that would have an impact on the financial statements.

46. Unauthorised expenditure

There were no unauthorised expenditure recorded in the financial year.

47. Fruitless and wasteful expenditure

Opening balance	556,098	78,452
Fruitless and wasteful expenditure	6,921	477,646
	563,019	556,098

The office of the Accounting Officer has prepared a report of the instances, which relates to interest charged on late payment of accounts (Eskom, Telkom & Motor Vehicle licences), the report was considered by the Administrator appointed by the Cabinet who then referred it to the new Council to deal with.

48. Irregular expenditure

Add: Irregular Expenditure - current year	2,498,807	-
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Details of irregular expenditure – current year

Contract with incorrect CIDB grading awarded contract	Disciplinary steps taken/criminal proceedings Under review by the Council	2,498,807
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49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Amount paid - current year	561,126	475,000
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Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand

49. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

Current year subscription / fee	1,086,328	867,010
Amount paid - current year	(1,086,328)	(867,010)
	-	-

PAYE and UIF

Current year subscription / fee	5,590,211	6,234,951
Amount paid - current year	(5,590,211)	(6,234,951)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	7,512,462	5,465,733
Amount paid - current year	(7,512,462)	(5,465,733)
	-	-

VAT

VAT receivable	1,930,774	11,945,446
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All VAT returns have been submitted by the due date throughout the year, returns are submitted monthly and on invoice/cash basis. SARS paid the interest for late refunds when they made refunds where applicable. There are two refunds outstanding May R 749 814.79 June R 1 156 538.77.

Councillors' arrear consumer accounts

There were no Councillors who had arrear accounts outstanding for more than 90 days at June 30, 2017 or who had accounts outstanding for more than 90 days during a financial year.

Supply chain management regulations disclosure

Notes to the Annual Financial Statements

Figures in Rand

50. Actual operating expenditure versus budgeted operating expenditure

Explanations for the variances on comparison of actual operating expenditure versus budgeted expenditure are stated below. Only variances of above 10% are provided with explanations.

51.1 Statement of financial performance

51.1.1 REVENUE

Service charges - Consumption of electricity is based on demand by residents which fluctuates and losses as disclosed in the material electricity losses

Rental of facilities and equipment - Rental income is usage dependant which cannot be controlled

Government grants and subsidies - Additional grants received (MIG, Massification), increased in spending on grants.

Miscellaneous other revenue - Income is ad hoc and municipality has no control over

Interest received - investment - Investing of funds not required immediately to earn higher interest

5.1.2 EXPENDITURE

Depreciation - Major infrastructure projects completed earlier than expected

Employee related costs - the councillors were not paid for March, April and May after dissolution in February. The political office-bearers were also not elected after August 2016 elections all councilors were paid ordinary councilor allowances and this was only done in June 2017, the support staff for the office-bearers were not appointed as there were no office-bearers since they are linked to their term of office.

Repairs and maintenance - Repairs and planned maintenance are done as required, expenditure is based on those

Bulk purchases - Based on electricity consumption patterns by the consumers.

Contracted Services - Reduction of the outsourced activities

General Expenses - Cost containment strategies to reduce costs and unnecessary spending in line with priorities set like publicity, accommodation, printing and stationery etc.

51. Actual capital expenditure versus budgeted capital expenditure

The explanations for variances above 10% on the comparison of actual capital expenditure versus budgeted expenditure are provided below.

52. Deviation from supply chain management regulations

There were no deviations from the Municipal Supply Chain Management Regulations and Policy recorded during the reporting period.

53. Assets subject to restrictions

There are no assets that have been recognised, which have are subject to any restrictions.

54. Budget differences

Material differences between budget and actual amounts

There were material differences between the final budget and the actual amounts where reasons are provided in note 50.

Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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54. Budget differences (continued)

Changes from the approved budget to the final budget

There were no changes from the approved budget to the final budget.

55. Material Losses - Electricity

kWh value

Total purchased (kWh)	20,180,313	22,345,972
Total sold (kWh)	(10,737,358)	(8,544,978)
Own consumption (kWh)	(95,698)	(122,137)
Free Basic Electricity (kWh)	(635,950)	(463,100)
Electricity loss (kWh)	8,711,307	13,215,757

Monetary value

Average selling price per kWh	1.147	1.105
Electricity cost (R)	17,686,150	16,405,929
Electricity loss (R) (Based on kWh loss)	9,991,869	14,601,480

The municipality is licensed by the National Electricity Regulator of South Africa to distribute electricity within the proclaimed area of Nquthu Town.

The municipality has investigated the causes of the losses and the major contributing factors are illegal connections, tampering, lack of accounting for streetlight usage and technical/distribution losses due to ageing infrastructure.

The percentage of losses is 43.17% (2016:59.14%) in kWh values.

56. Indigent support

All Eskom customers qualify for Free Basic Electricity (FBE) which is 50kWh per month

Households amounting to 1 180 are subsidized for alternative energy per month on the solar panels - 1 713 households - projects for those areas without electricity as yet, installations to other households is proceeding.

Electricity customers serviced by our licence also get a 50kWh every month. The management has been tasked to develop a policy where only deserving households benefits in all these rather than the current blanket approach.

57. Awards to persons in service of state

Company	Actual paid this year	Award amount
Nokubalisa Construction & Project cc	114,013	114,013
Nomadavathi (Pty) Ltd	4,335	4,335
	118,348	118,348

Company	Owner	Service entity/department	Actual paid this year	Award amount
Nokubalisa Construction & Project cc	Ntokozo Njabulo	Mzinyathi District Municipality	114,013	114,013
Nomadavathi (Pty) Ltd	Godsgrace Ngcobo	KZN Department of Education	4,335	4,335
	Sizakele Mkhize		118,348	118,348

The were awards made to people who are in employ of the state, which were only identified through the audit where it was determined that the suppliers declared false information. The MBD 4 forms are used as a control measure for this. The introduction of Central Supplier Database (CSD) also improved the controls in place.

Unaudited Schedule of external loans as at 30 June 2017

Loan Number	Redeemable	Balance at Thursday, June 30, 2016	Received during the period	Redeemed written off during the period	Balance at Friday, June 30, 2017	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
DBSA Loan @ 5%	100524/3 January 2016	125,643	-	125,643	-	-	-
		125,643	-	125,643	-	-	-
		125,643	-	125,643	-	-	-
Total external loans							

Nquthu Local Municipality
Nquthu Local Municipality
Unaudited Appendix B

June 2017

Analysis of property, plant and equipment as at 30 June 2017
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	13,270,852	-	-	-	-	-	13,270,852	-	-	-	-	-	-	13,270,852
Dwellings	2,804,526	-	-	-	-	-	2,804,526	(612,165)	-	-	(176,195)	-	(788,360)	2,016,166
Buildings - non residential (Separate for AFS purposes)	55,744,373	-	-	43,539,255	-	-	99,283,628	(10,370,374)	-	-	(2,373,218)	-	(12,743,592)	86,540,036
Buildings - Assets under construction (Separate for AFS purposes)	80,031,936	42,738,556	-	(57,583,739)	-	-	65,186,753	-	-	-	-	-	-	65,186,753
	151,851,687	42,738,556	-	(14,044,484)	-	-	180,545,759	(10,982,539)	-	-	(2,549,413)	-	(13,531,952)	167,013,807
Infrastructure														
Roads, Pavements & Bridges	109,012,423	-	-	38,137,086	-	-	147,149,509	(21,548,790)	-	-	(4,696,880)	-	(26,245,670)	120,903,839
Electricity	12,512,429	-	(10,694,020)	14,044,484	-	-	15,862,893	(6,283,389)	-	-	(477,073)	-	(6,760,462)	9,102,431
Roads Under Construction	30,104,427	32,164,293	-	(38,137,086)	-	-	24,131,634	-	-	-	-	-	-	24,131,634
	151,629,279	32,164,293	(10,694,020)	14,044,484	-	-	187,144,036	(27,832,179)	-	-	(5,173,953)	-	(33,006,132)	154,137,904
Community Assets														
Refuse sites	2,269,459	-	-	-	-	-	2,269,459	(1,339,680)	-	-	(57,593)	-	(1,397,273)	872,186
Cemeteries	823,034	-	-	-	-	-	823,034	(141,052)	-	-	(81,914)	-	(222,966)	600,068
	3,092,493	-	-	-	-	-	3,092,493	(1,480,732)	-	-	(139,507)	-	(1,620,239)	1,472,254

June 2017

Analysis of property, plant and equipment as at 30 June 2017

Heritage assets

Jewellery	78,888	-	-	-	-	-	78,888	-	-	-	-	-	-	78,888
	78,888	-	-	-	-	-	78,888	-	-	-	-	-	-	78,888

Other assets

Motor Vehicles	27,710,724	104,995	(424,246)	-	-	-	27,391,473	(6,783,722)	163,274	-	(2,894,584)	-	(9,515,032)	17,876,441
Plant & equipment	5,792,202	30,320	(132,072)	-	-	-	5,690,450	(2,237,380)	88,130	-	(423,691)	-	(2,572,941)	3,117,509
Computer Equipment	2,975,124	340,430	(118,597)	-	-	-	3,196,957	(1,659,359)	104,591	-	(389,332)	-	(1,944,100)	1,252,857
Office Equipment	4,121,838	106,689	(62,382)	-	-	-	4,166,145	(2,287,821)	51,315	-	(388,235)	-	(2,624,741)	1,541,404
	40,599,888	582,434	(737,297)	-	-	-	40,445,025	(12,968,282)	407,310	-	(4,095,842)	-	(16,656,814)	23,788,211

Total property plant and equipment

Land and buildings	151,851,687	42,738,556	-	(14,044,484)	-	-	180,545,759	(10,982,539)	-	-	(2,549,413)	-	(13,531,952)	167,013,807
Infrastructure	151,629,279	32,164,293	(10,694,020)	14,044,484	-	-	187,144,036	(27,832,179)	-	-	(5,173,953)	-	(33,006,132)	154,137,904
Community Assets	3,092,493	-	-	-	-	-	3,092,493	(1,480,732)	-	-	(139,507)	-	(1,620,239)	1,472,254
Heritage assets	78,888	-	-	-	-	-	78,888	-	-	-	-	-	-	78,888
Other assets	40,599,888	582,434	(737,297)	-	-	-	40,445,025	(12,968,282)	407,310	-	(4,095,842)	-	(16,656,814)	23,788,211
	347,252,235	75,485,283	(11,431,317)	-	-	-	411,306,201	(53,263,732)	407,310	-	(11,958,715)	-	(64,815,137)	346,491,064

Intangible assets

Computers - software & programming	623,878	-	-	-	-	-	623,878	(317,121)	-	-	-	-	(317,121)	306,757
	623,878	-	-	-	-	-	623,878	(317,121)	-	-	-	-	(317,121)	306,757

Investment properties

Investment property	1,999,640	-	-	-	-	-	1,999,640	(1,046,640)	-	-	-	-	(1,046,640)	953,000
	1,999,640	-	-	-	-	-	1,999,640	(1,046,640)	-	-	-	-	(1,046,640)	953,000

Total

Land and buildings	151,851,687	42,738,556	-	(14,044,484)	-	-	180,545,759	(10,982,539)	-	-	(2,549,413)	-	(13,531,952)	167,013,807
Infrastructure	151,629,279	32,164,293	(10,694,020)	14,044,484	-	-	187,144,036	(27,832,179)	-	-	(5,173,953)	-	(33,006,132)	154,137,904
Community Assets	3,092,493	-	-	-	-	-	3,092,493	(1,480,732)	-	-	(139,507)	-	(1,620,239)	1,472,254
Heritage assets	78,888	-	-	-	-	-	78,888	-	-	-	-	-	-	78,888
Other assets	40,599,888	582,434	(737,297)	-	-	-	40,445,025	(12,968,282)	407,310	-	(4,095,842)	-	(16,656,814)	23,788,211
Intangible assets	623,878	-	-	-	-	-	623,878	(317,121)	-	-	-	-	(317,121)	306,757
Investment properties	1,999,640	-	-	-	-	-	1,999,640	(1,046,640)	-	-	-	-	(1,046,640)	953,000
	349,875,753	75,485,283	(11,431,317)	-	-	-	413,929,719	(54,627,493)	407,310	-	(11,958,715)	-	(66,178,898)	347,750,821

June 2017

Unaudited Segmental analysis of property, plant and equipment as at 30 June 2017	
Cost/Revaluation	Accumulated Depreciation
Land and buildings Cost Revaluation	Accumulated Depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment deficit Rand	Closing Balance Rand	Carrying value Rand
Municipality														
Finance	6,250,109	-	-	-	-	-	6,250,109	(1,339,218)	-	-	-	-	(1,339,218)	4,910,891
Municipal Manager	78,647,899	-	-	-	-	-	78,647,899	(6,236,565)	-	-	-	-	(6,236,565)	72,411,334
Planning and Development/Economic Development/Plan	1,335,128	-	-	-	-	-	1,335,128	(163,684)	-	-	-	-	(163,684)	1,171,444
Corporate Services	25,232,397	-	-	-	-	-	25,232,397	(5,752,568)	-	-	-	-	(5,752,568)	19,479,829
Electricity /Electricity Distribution	7,774,773	-	-	-	-	-	7,774,773	(5,823,297)	-	-	-	-	(5,823,297)	1,951,476
Works	132,908,193	-	-	-	-	-	132,908,193	(20,837,618)	-	-	-	-	(20,837,618)	112,070,575
	252,148,499	-	-	-	-	-	252,148,499	(40,152,950)	-	-	-	-	(40,152,950)	211,995,549
Total														
Municipality	252,148,499	-	-	-	-	-	252,148,499	(40,152,950)	-	-	-	-	(40,152,950)	211,995,549
	252,148,499	-	-	-	-	-	252,148,499	(40,152,950)	-	-	-	-	(40,152,950)	211,995,549

Nquthu Local Municipality

Appendix F

Unaudited Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

June 2017

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed / withheld				Reason for delay/withholding of funds	Did y muni lity c ly w the g cond s term gra fram k in late Divis o Reve A
Library support	KZN-Arts & Culture (Libraries)	-	-	-	-	371,142	360,029	410,823	373,437	-	-	-	-		Yes
Eletrification		18,000,000	-	-	-	750,064	12,490,655	4,719,985	-	-	-	-	-		Yes
Cybercadet		-	-	-	-	92,053	94,284	81,435	81,616	-	-	-	-		Yes
MPCC1	KZN COGTA	-	-	-	-	-	-	-	-	-	-	-	-		Yes
MIG	National COGTA	11,301,000	18,477,000	-	-	11,385,651	11,602,509	6,518,993	6,733,643	-	-	-	-		Yes
Sportfield Nquthu	KZN Sports	-	-	-	-	-	-	-	-	-	-	-	-		Yes
Sportfield Maintance	KZN Sports	167,000	-	-	-	-	-	-	48,083	-	-	-	-		Yes
MSIG	COGTANatio	-	-	-	-	46,209	-	-	-	-	-	-	-		Yes
Bornem Grant	Bornem Municipality	598,357	1,102,940	344,769	-	43,396	250,717	1,210,285	190,039	-	-	-	-		Yes
Financial Management Grant	National Treasury	1,825,000	-	-	-	49,645	264,587	148,855	1,348,667	-	-	-	-		Yes
Synergistic		-	-	-	-	-	-	-	-	-	-	-	-		Yes
Massifiacion	KZN - COGTA	-	-	8,611,000	-	-	-	4,580,365	4,802,052	-	-	-	-		Yes
Eletricity		-	-	-	-	-	-	-	-	-	-	-	-		Yes
EPW		334,000	-	1,003,000	-	-	-	253,925	1,043,894	-	-	-	-		Yes
Road Reh.	KZN COGTA	-	-	-	-	-	-	-	-	-	-	-	-		Yes
Library Volunteer		-	-	-	-	9,690	3,167	-	-	-	-	-	-		Yes
		32,225,357	19,579,940	9,958,769	-	12,747,850	25,065,948	17,924,666	14,621,431	-	-	-	-		

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.